



OFFICE OF THE MAYOR
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

April 9, 2012

The Honorable Steven L. Beshear
Governor, Commonwealth of Kentucky
700 Capitol Avenue, Suite 100
Frankfort, KY 40601

Dear Governor Beshear:

Our administration was glad to learn that you put together a Blue Ribbon Commission to study tax reform to align Kentucky's tax structure with the dictates that it takes to be economically competitive in the 21st century. Given the challenges facing local governments in managing revenue under the current statutory framework in Kentucky, we were very pleased when you named Lieutenant Governor Abramson as Chair of the Commission, especially given his vast experience as former mayor of Louisville and expertise in this area. As you know, local governments presently may only assess the following taxes: (1) real and personal property, (2) special ad valorem, (3) occupational and business, and (4) insurance premium.

Cities around the country are looking for innovative ways to move local governments forward, especially using dedicated revenue sources for specific capital projects with sunsets on such revenue streams. As such, our legislative affairs specialist in Washington, DC, who works closely with the U.S. Conference of Mayors, has provided the following table of resources that the Commission may want to review in its examination of tax reform here in Kentucky:

	Background on Municipal Tax Reform Studies, Initiatives and Commentary
1.	<u>Minnesota Governor Taps Mayors for Advice on Tax Reform</u>
2.	<u>Pittsburgh Tax Reform</u>
3.	<u>Alternative Means for Financing Infrastructure for Cities in Champaign, County IL</u>
4.	<u>Taxing Universities to Help Local Government</u>
5.	<u>San Francisco Business Tax Reform</u>
6.	<u>Tax Reform in Huntington, West VA</u>

7.	<u>Florida Property Tax Reform</u>
8.	<u>A Blue Print for Comprehensive Local Tax Reform (Pennsylvania)</u>
9.	<u>Pennsylvania's Success with Local Property Tax Reform: The Split Rate Tax</u>
10.	<u>Fundamental Property Tax Reform (New Jersey Cities)</u>
11.	<u>Delinquent Property Tax Reform</u>
12.	<u>Hartford Property Tax Reform</u>
13.	<u>Local Tax Policy – Urban Institute</u>
14.	<u>U.S. Conference of Mayors – Best Practices on Taxes</u>
15.	<u>Government Finance Officers Association Best Practices</u>

To access any of the information in the table, just hold down the control button while clicking on a computer mouse's left key.

In addition, the Kentucky Society of Certified Public Accountants in 2009 produced a brochure entitled, *Tax Policies that Make Sense*, a copy of which is hereby attached. The ten (10) guiding principles set forth in the brochure to establish Kentucky's tax policy are as follows: (1) Certainty; (2) Equity, fairness, and neutrality; (3) Simplification and economy of collection; (4) Economic Growth; (5) Transparency and clarity; (6) Predictability; (7) Consistency; (8) Clear administrative guidance; (9) Uniform with other jurisdictions and federal procedure; and (10) Avoid double taxation and pyramiding of taxes. The Commission may want to review this brochure and these guidelines as it reviews, examines and makes suggestions on improving Kentucky's tax structure and policy.

With that being said, we strongly hope you and the Commission will consider looking at the current tax system afforded local governments and some ways that it can be improved and/or modified. Some revenue streams that should be examined as new revenue sources for local governments or as replacements to some current taxes either require statutory or constitutional changes. As you know, statutory changes are less cumbersome to obtain than constitutional modifications. The changes are set forth below and are broken down into statutory or constitutional amendments:

STATUTORY AMENDMENTS

- (1) Restaurant Tax: Currently, KRS 91A.400 provides that local governments can assess a three percent (3%) tax on restaurant sales that is solely dedicated to the Convention and Visitor Bureaus. HB 368 currently calls for amending this statute to provide cities the opportunity to implement this tax, and share the revenues with the Convention and Visitor Bureaus.
- (2) Insurance Premium Surcharge: Provide that the rate on insurance premiums levied by counties and consolidated local governments not be supplanted by cities' assessments

regarding such insurance premium surcharges that exist within the borders of such county or consolidated local governments.

- (3) General Revenue Sharing: This concept would look at, for instance, dedicating one percent (1%) of the state sales tax to be distributed to local governments. Like the current general revenue sharing measures in existence, there would need to be a formula adopted to divide the monies amongst the various jurisdictions.

CONSTITUTIONAL AMENDMENTS

- (1) Sales Tax. A local option sales tax is one of the options that other Mayors around the country have used in their cities to fund major infrastructure projects, and usually include sunset provisions. In order to permit local governments to have this option, a constitutional amendment would need to be approved by the voters of the Commonwealth.
- (2) Income Tax: Although occupational taxes are somewhat similar to income taxes, cities are not permitted to levy a tax on income (as opposed to earnings). Those individuals who currently do not work avoid the occupational license fee, but would not an income tax. Again, the ability for cities to even consider the implementation of this option would first require a constitutional amendment with the approval of such amendment by the voters of the Commonwealth.

These are just some options for your Commission to consider reviewing. We, in no way, mean for this to serve as an exhaustive list, but merely as a possible starting point in the conversation on how local governments can improve and/or modify their current revenue structures.

This Commission has a significant task ahead, but I know this body is up to the challenge.

I would be happy to appear before the Commission to discuss the impact of these options further and may bring other members of the Metropolitan Alliance for Growth as well. We fully expect that there will be some meaningful changes in the way government is funded and currently operates as a result of the work of this group and we wish you all the best in this endeavor and look forward to reviewing the exciting recommendations to move this Commonwealth and its local jurisdictions on a path toward a brighter future for all Kentuckians.

Sincerely,



Greg Fischer
Mayor

Cc: Lieutenant Governor Jerry Abramson